Letter of Comment No. 27
File Reference No. 26-5P
Date Received: 9/30/13

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September 30, 2013

Director of Research and Technical Activities
Governmental Accounting Standards Board
Project No. 56-5P

To whom it may concern:

Utah Retirement Systems (URS) appreciates the opportunity to participate in Project No. 26-5P Fair Value Measurement and Application. We have the following responses to the issues raised in the preliminary views.

Issue 1-Definition of Fair Value

URS recognizes that this definition is equivalent to the definition in FASB Statement No. 157. However, URS disagrees with the definition of fair value as it appears to be applicable to a limited type of investments and does not adequately address the makeup of pension investments.

First, there are many assumptions within this proposed definition; the definition assumes a hypothetical orderly transaction as of the measurement date. For most equity transactions this may indeed be the case, but for all other classes of assets and liabilities this is not always the case, especially pension fund investments. URS found in its research that some holdings currently did not have enough information available to determine a fair value using traditional pricing services providers. URS was unable to find sources of information which would allow us to assign the appropriate level designation. Also, many assets do not have an active market with which a price can be verified or even replicated which may lead to inconsistency and limit verifiability of fair value pricing, thereby creating greater confusion rather than clarity as different entities try to value these types of assets in different ways.

Second, the proposed definition assumes orderly transactions between market participants. Many pension investments are highly specialized which limits the number of market participants and thus limits the volume of available transactions. Additionally there is little or no market data available. For these types of investments fair value pricing may be based on measures which are unique to that

particular investment and may not be relevant to another investment within the same asset class. It would seem that in this case comparability and consistency would be compromised.

Third, the proposed definition assumes a willingness to sell which coincides with a willingness to buy which is frequently not the case. Some pension investments are held based on a strategy which may not consider the current market price. For example, an investment may be experiencing negative market conditions with the investment manager unwilling to sell the investment at the current fair value.

Issue 2-Transaction Costs

URS agrees with the Board's proposal regarding transaction cost being treated as period cost. The decision to sell an asset is based on market conditions and how that particular investment fits the holder's current investment strategy. As transactions cost vary, treating these costs as a reduction of fair value would lead to differences in valuing the same asset from period to period.

Issue 3-Definition of an Investment

URS recognizes that this definition is equivalent to the definition in FASB Statement No. 157. URS believes that the definition is very narrow in scope. Pension investments are purchased and sold based on a strategy for the particular investment class as it contributes to the strategy of the overall portfolio. Additionally, investments such as derivatives are held for risk mitigation and not to generate cash.

Issue 4-Measurement of Investments

URS recognizes that this definition is equivalent to the definition in FASB Statement No. 157. URS disagrees with the Board's view on the measurement of investments. As noted in issue #1 above there are certain investments such as private equity and real estate that do not fit cleanly within the definition of fair value. The definition of fair value considers an active market driven approach which is not available with many of these investments. URS believe that this would open these investments to bias and manipulation in determining a fair value. URS suggests an additional category of Net Asset Value which is more descriptive of the method used to determine a price at measurement date.

Issue 5-Disclosures

URS questions the usefulness for the proposed sensitivity analysis for level three investments which are not valued at net asset value for pension funds. This proposal appears to apply a "what if" analysis to these investments that is relevant only as of the measurement date. Public employee retirement systems such as URS change holdings on a daily basis and therefore the usefulness of this information for pension funds is questionable. URS hires multiple investment managers that invest in Level 3 non NAV type investments. To combine all of these investments to create one sensitivity analysis using various valuation techniques for multiple type asset classes was extremely complex and time consuming

for URS. The sensitivity analysis shown in the CAFR provided at the measurement date would likely be obsolete and misleading since there is typically a delay between the CAFR's effective date and the date the CAFR is available. In URS's case there is nearly a 3 to 4 month delay from when the CAFR is available and the measurement date; therefore, URS questions the usefulness of the disclosure for pension plans due to the length of time between the disclosure and the effective date of the report. URS does see how the disclosure may be useful for state and local governments that do not have much turn over in their investment portfolio. URS made several inquiries of its current service providers and we were unable to find a source for this level of detail as this disclosure is not required under the FASB standard. URS also contacted most of our investment managers that invest in Level 3 non NAV investments and none of them were currently able to provide the necessary information for URS to complete the sensitivity analysis. If URS is going to need to complete and provide the sensitivity analysis for Level 3 non NAV investments, the investment fees that URS is paying will likely increase to provide the information to prepare the footnote disclosure. Additionally, URS is unsure how its external auditors would be able to perform test work on this particular disclosure. We feel that the cost required to compile this information would be much greater than the benefit to a very select segment of financial statement users.

Once again URS is pleased to be involved in what we view as a critical step in the process of standard setting for governmental entities.

Sincerely yours,

Robert K. Kellersberger CGFM
Finance Director

Daniel D. Andersen
Executive Director

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Recurring fair value measurements	12/31/2012	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities, domestic				
Fixed income derivatives	$ (2,458,813)	$ 327,792	$ -	$ (2,786,605)
Asset backed securities	141,513,585		141,513,585	
Commerical mortgage-backed	89,547,260		89,547,260	
Corporate bonds	593,379,777		593,379,777	
Government agencies	102,580,965		102,580,965	
Government bonds	790,487,367		790,487,367	
Government mortgage backed securities	920,540,818		920,540,818	
Gov't issued commerical mortgage backed	8,105,024		8,105,024	
Index linked government bonds	311,264,755		311,264,755	
Non-Government backed C.M.O.'s	86,068,049		86,068,049	
Total debt securities, domestic	3,041,028,787	327,792	3,043,487,600	(2,786,605)
Debt securities, international				
Asset backed securities	10,694,788		10,694,788	
Corporate bonds	223,931,883		222,547,883	1,384,000
Government agencies	13,713,728		13,713,728	
Government bonds	257,301,223		195,439,486	61,861,737
Index linked government bonds	532,609,032		532,609,032	
Non-Government backed C.M.O.'s	13,221,356		13,221,356	
Total debt securities, international	1,051,472,010	-	988,226,273	63,245,737
Equity Investments, domestic				
Common stock	3,577,350,000	3,577,350,000		
Cash collateral	19,750,000	19,750,000		
Total equity investments, domestic	3,597,100,000	3,597,100,000	-	-
Equity Investments, international				
Common stock	4,584,768,853	4,581,510,036	240,585	3,018,232
Preferred stock	68,744,148	68,744,148		
Other equity	21,771,000	21,771,000		
Total equity investments, international	4,675,284,001	4,672,025,184	240,585	3,018,232
Absolute return funds				
Directional	711,401,786			711,401,786
Equity Long/Short	344,793,412			344,793,412
Event Driven	919,424,041			919,424,041
Multi-strategy	424,091,864			424,091,864
Opportunistic	377,690,938			377,690,938
Relative value	696,906,301			696,906,301
Total absolute return	3,474,308,342	-	-	3,474,308,342
Other Investments				
Private equity	2,593,847,000			2,593,847,000
Real assets	3,094,442,000			3,094,442,000
Mortgage loans	6,847,000			6,847,000
Total other investments	5,695,136,000	-	-	5,695,136,000
Total recurring fair value measurements	$ 21,534,329,140	$ 8,269,452,976	$ 4,031,954,458	$ 9,232,921,706

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Fair Value Measurements in Investments in Certain Entities that Calculate Net Asset per Share

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Directional absolute return funds	$ 711,401,786	$ -	30-90 days	5-60 days
Equity Long/Short absolute return funds	344,793,412	-	90-1,095 days	45-60 days
Event Driven absolute return funds	919,424,041	3,263,144	90-2,007 days	45-60 days
Multi-strategy absolute return funds	424,091,864	-	30-730 days	30-40 days
Opportunistic absolute return funds	377,690,938	102,324,414	90-365 days	45-90 days
Relative value absolute return funds	696,906,301	13,631,313	90-730 days	60-90 days
Private energy and infrastructure	13,056,816	134,443,834	Not redeemable. Investment terminates and liquidates in 7-10 years	Not applicable
Timber and agriculture	143,634,984	20,380,000	Not redeemable. Investment terminates and liquidates in 7-10 years	Not applicable
Commodities	274,036,553	517,739,012	Not redeemable. Investment terminates and liquidates in 7-10 years	Not applicable
Real estate - restricted	33,620,387	25,100,000	Not redeemable during 10 year commitment period.	
Real estate - unrestricted	2,630,093,260	5,673,992	None	Not applicable
Mortgage loans	6,847,000	-	Not redeemable. Investment terminates and liquidates in 7-10 years	Not applicable
Private equity	2,593,847,000	1,532,095,058	Not redeemable. Investment terminates and liquidates in 7-10 years	Not applicable
Total	$ 9,169,444,342	$ 2,354,650,767		

A. **The Directional absolute return funds**- classification is a catch-all, but generally refers to strategies that are more directional in nature although they can shift opportunistically between having a directional bias and a non-directional bias. Representative Tactical/Directional Strategies include Global Tactical Asset Allocation (GTAA) and Global Macro strategies.

B. **Equity Long/Short absolute return funds**-This strategy seeks to combine long and short equity positions to benefit from security selection, while offsetting systematic market risk (to varying degrees). Portfolios are typically constructed using a "fundamental, bottoms up approach" encompassing detailed financial modeling, industry research and company due diligence.

C. **Event Driven absolute return funds**--This strategy focuses on identifying and analyzing securities that can benefit from the occurrence of an extraordinary corporate transaction or event (e.g.: restructurings, takeovers, mergers, spin-offs, bankruptcy, etc.) Representative Event Driven Strategies include Merger Arbitrage, Event Driven Equity and Distressed Investing.

D. **Relative Value absolute return funds**-Strategy seeks returns by capitalizing on the mispricing of related securities or financial instruments. Generally, Relative Value Strategies avoid taking a directional bias with regard to the price movement of particular securities or markets. Representative Relative Value Strategies include Convertible Arbitrage, Fixed Income Arbitrage and Equity Market Neutral Strategies.

E. **Multistrategy absolute return funds**-This class includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The fair values of the investments have been estimated using net asset value of the investments.

F. **Opportunistic absolute return funds**-This sub-portfolio is differentiated from the rest of the ARP in that it is designed to accommodate investments in a variety of strategies which share a very specific set of investment objectives. Opportunistic investments should generally satisfy the following conditions: 1) enhance returns of the Absolute Return Portfolio, 2) display a positive asymmetric return profile (i.e., upside potential with limited downside), 3) have an identifiable exit point (typically five years or less, likely achieved through investment in a limited-life vehicle structure), and 4) be sourced primarily, though not exclusively, through existing relationships. The investments may be in any sub-strategy or niche strategy, but are likely to result from a market dislocation and display greater illiquidity, beta and volatility than other investments in the Absolute Return Portfolio. The vehicles may be funded with one-time investments or via a commitment/capital call drawdown mechanism. The Opportunistic Investments Sub-Portfolio is not meant to be viewed as a diversified stand-alone portfolio; rather, it is a collection of opportunistic investments with unique characteristics that require segregation from the rest of the Absolute Return.

G. **Private energy and Infrastructure** - encompasses, but is not limited to, power generation and utilities, midstream infrastructure, energy exploration and production, transportation, water and waste management, communications and social infrastructure. Utah Retirement Systems invests in both core and non-core assets with primary interest in core. Core assets will be established contracted assets or assets with proven reserves that provide inflation linked cash flows with the potential for upside appreciation over the longer term. These assets will include power generation plants, electrical grid and distribution networks, natural gas and petroleum pipelines, gathering storage networks, productive energy fields, transportation networks and generally assets with limited development or contract risk with qualified public entities. Non-core assets would include energy exploration and development, power and utility development, social infrastructure, or other assets that may not be established or under contract. Geographic diversification will include both developed markets, and also developing markets with strong contractual protections and growth economic development.

H. **Timber and agriculture** - Will include assets that invest in productive land with primary purpose of agriculture or timber production. Agriculture represents an investment in farmland or other agriculture related assets either domestic or international. A timberland portfolio will consist of land, or funds that invest in land, where such land has the primary purpose of growing timber for a multitude of purposes.

I. **Commodities** - are intended to reflect the beta of real assets in general. One of the characteristics of a commodity is that its price is determined by a function of its market as a whole in part because individual units of a given commodity are of essentially uniform quality and are considered interchangeable. Generally, these are basic resources and agriculture products such as iron ore, crude oil, coal, salt, sugar, coffee beans, soybeans, aluminum, copper, rice, wheat, gold, silver, palladium, and platinum.

J. **Real estate** - includes both commercial and residential properties and extends to the more broadly defined real property that encompasses land along with improvement to the land, such as included anything of a permanent nature such as structures, buildings, fences, trees, minerals, wells and other site improvements and the interest, benefits, and inherent rights thereof.

K. **Private equity** - is designed to establish exposure to both "small cap" and "larger cap" private equity strategies. "Small cap" is dominated by the venture capital strategies and "large cap" is primarily represented by strategies such as buyouts and special situations. These are intended to bring substantial capital gains orientation to the portfolio in a framework of five to ten years. The target portfolio's second purpose is to invest in strategies, which introduce cash flow and collateralization, such as subordinated debt and restructuring. This aspect of the portfolio should produce more immediate performance, introduce cash flow, and reduce volatility. The target portfolio is 85% equity oriented and 15% debt oriented.

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Quantitative Information about Level 3 Fair Value Measurements (Excluding Investments that Calculate Net Asset Value)

	Fair Value at 12/31/2012	Effect on Invesment Income	Valuation Technique	Unobservable Input	Range (Weighted Average)
Common and Preferred Stock	$ 3,018,232	$ 89,959	Not Available	Not Available	Not Available
Fixed Income Derivatives	(2,786,605)	252,256	Not Available	Not Available	Not Available
Corporate Bonds	1,384,000	22,500	Not Available	Not Available	Not Available
Government Bonds	61,861,737	55,264	Not Available	Not Available	Not Available

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Field Test Fair Value Measurement and Application

Response to Questions

A. No change

B. No change

C. No change

D. Our custodial bank provided URS with access to their fair value level determination software. Several investments were initially classified in the undeterminable category and URS did not have the expertise on staff to make level determinations. URS reached out to external advisors and internal investment managers for assistance with limited response. The proposed sensitivity analysis was the most difficult to put together. URS was unable to find a source for this level of information. URS assumes that this disclosure would require input from various sources and we are concerned with the level of consistency of the inputs. URS does not feel that this disclosure is useful for pension plans as our holdings fluctuate on a daily basis.

E. It took approximately 120 hours to complete the field test.

F. URS believes that the initial year of implementation would be the most time consuming to develop the infrastructure with our custodian and investment advisors. URS anticipates additional time educating staff on the new standard. URS has determined that no additional time would be required to apply fair value measurements to investments. URS estimates an additional 60 hours to classify and disclose fair value input levels initially and in subsequent years, an additional 160 hours to prepare narrative disclosures for Level 3 inputs initially and 140 hours in subsequent years, and 30 hours initially and in subsequent years classifying and disclosing fair value for investments valued at net asset value.

G-I. URS staff spent 40 hours applying fair value measurements to the most recent CAFR; 100 hours to prepare fair value related disclosures and 450 hours total staff time to prepare the most recent CAFR.

J. The annual cost for software access is currently $4,000 (provided at no charge for purpose of field test) and would be ongoing. URS additional fees required if the sensitivity analysis disclosure is part of the new standard and would be higher in the initial year.

K. URS incurred $2,500 in non-staff costs to apply fair value measurements to investments for the most recent CAFR.

L. None

M. URS incurred a total of $18,600 in non-staff costs to prepare the most recent CAFR.

N. URS anticipates system changes both internally and externally to implement the standard. Additionally staff training would be required.

O. There are not other issues other than those already addressed in the preliminary views response.

P. Obviously with any new standard the benefit should greatly outweigh the time and cost associated with implementation. The benefit should be gained by a broad range of financial statement users and not a select few.